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**FISCAL IMPACT STATEMENT**

**LS 6226**

**BILL NUMBER:** HB 1398

**NOTE PREPARED:** Nov 15, 2006

**BILL AMENDED:**

**SUBJECT:** College Contribution Income Tax Credit.

**FIRST AUTHOR:** Rep. Ruppel

**FIRST SPONSOR:**

**BILL STATUS:** As Introduced

**FUNDS AFFECTED:** ☒ GENERAL  
☒ DEDICATED  
FEDERAL

**IMPACT:** State

**Summary of Legislation:** The bill increases the maximum income tax credit for contributions by individuals to Indiana institutions of higher education from \$100 to \$200 for single returns and from \$200 to \$400 for joint returns.

**Effective Date:** January 1, 2007 (retroactive).

**Explanation of State Expenditures:** The Department of State Revenue (DOR) will incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate the changes to this credit. The Department's current level of resources should be sufficient to implement this change.

**Explanation of State Revenues:** The bill would reduce state Adjusted Gross Income (AGI) Tax liabilities of individuals making charitable contributions to Indiana institutions of higher education in excess of the current limits for the college contribution tax credit. Potential revenue loss totals are presented in the table below depending upon the number of taxpayers claiming credits above the current maximum credit levels. The estimates assume varying response rates to the maximum credit levels (i.e., 5% of those currently claiming the maximum credit level claim the new maximum credit level). In addition, the lower value in each range assumes no year-to-year change in the number of taxpayers claiming the maximum credit. The high values in each range assume that the recent annual change in the number of filers claiming the maximum credit level will continue in the future.

<b>Revenue Loss if . . .</b>	<b>FY 2008</b>	<b>FY 2009</b>
5% of taxpayers currently claiming the maximum credit claim the new maximum credit.	\$0.27 M - \$0.29 M	\$0.27 M - \$0.30 M
10% of taxpayers currently claiming the maximum credit claim the new maximum credit.	0.54 M - 0.59 M	0.54 M - 0.60 M
25% of taxpayers currently claiming the maximum credit claim the new maximum credit.	1.35 M - 1.47 M	1.35 M - 1.51 M
50% of taxpayers currently claiming the maximum credit claim the new maximum credit.	2.7 M - 2.9 M	2.7 M - 3.0 M
75% of taxpayers currently claiming the maximum credit claim the new maximum credit.	4.1 M - 4.4 M	4.1 M - 4.5 M
100% of taxpayers currently claiming the maximum credit claim the new maximum credit.	5.4 M - 5.9 M	5.4 M - 6.0 M

*Impact on Higher Education Institutions:* This bill may result in an increase in charitable contributions to institutions of higher education. The portion of any increase which will be realized by state institutions is not known.

*Background:* Under current law, individuals may claim an AGI Tax credit that is limited to 50% of charitable contributions to Indiana higher education institutions up to a maximum of \$100 for a single taxpayer or \$200 for taxpayers filing a joint return. Beginning in 2007, the bill increases the maximum credit levels to \$200 for a single taxpayer and \$400 for taxpayers filing a joint return. As a result, the bill would reduce AGI tax liabilities for individuals and corporations making charitable contributions to Indiana's higher education institutions in excess of the current credit limits.

According to individual income tax return data for tax year 2004, 94,043 individual taxpayers claimed approximately \$8.8 M in credits for contributions to Indiana higher education institutions. Of the total, 321 separate return filers and 9,671 single return filers claimed the maximum \$100 credit, and 22,102 joint filers claimed the \$200 maximum credit. It is assumed that taxpayers currently claiming less than the maximum credit would not increase their higher education contributions solely due to an increase in the credit limit. Thus, the revenue loss is assumed to be generated by taxpayers currently claiming maximum credits, and year-to-year growth in this number. From 1998 to 2004, the number of individual taxpayers claiming maximum credit amounts has risen by an average of 4.8% annually.

Since the increase in the credit limits is effective beginning in tax year 2007, the fiscal impact would begin in FY 2008. Eighty-six percent of the revenue from the AGI Tax on individuals is deposited in the state General Fund, and 14% of the revenue is deposited in the Property Tax Replacement Fund.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:**

**State Agencies Affected:** Department of State Revenue; State universities.

**Local Agencies Affected:**

**Information Sources:** OFMA individual income tax databases, 1998-2004.

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